

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Office of Community Planning and Development
Community Development Loan Guarantee

SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carry over	Supplemental/ Rescission	Total Resources	Obligations	Net Outlays
2023 Appropriation	-	-	-	-	-	-
2024 Annualized CR	-	-	-	-	-	-
2025 President's Budget	-	-	-	-	-	-
Change from 2024	-	-	-	-	-	-

a/ insert footnotes as needed

PROGRAM PURPOSE

The Community Development Loan Guarantee Program, also known as the Section 108 Loan Guarantee Program, provides Federal guarantees to private lenders to assist communities in undertaking large community and economic development projects.

BUDGET OVERVIEW

The 2025 President’s Budget requests \$400 million in loan guarantee authority for the Community Development Loan Guarantee program, which is \$100 million more than the 2024 Annualized CR level. This increase is due to the growing demand for Section 108 loan guarantees. HUD also anticipates greater use of the program if the Congress enacts the legislative proposal to add new construction of housing in mixed-use developments as an eligible activity.

With the implementation of the congressionally approved fee structure for the Section 108 program, HUD does not request any credit subsidy in 2025 to support this program. Instead, HUD will support loans in 2025 through the imposition of a fee assessed on borrowers, continuing the policy that started with the 2015 Consolidated and Further Continuing Appropriations Act (Pub. L. 113-235).

This program aligns to HUD 2022-2026 Strategic Objective 1C: *Invest in the Success of Communities.*

JUSTIFICATION

Section 108 of the Housing and Community Development Act enables communities to leverage their Community Development Block Grant (CDBG) funds into federally guaranteed loans large enough to pursue substantial physical and economic revitalization projects. These projects allow communities to provide critical affordable housing to low- and moderate-income families, expand economic opportunities, and renew entire neighborhoods through new or rehabilitated infrastructure.

At the requested funding level in 2025, the Section 108 Program would continue to fulfill its role as a highly valuable financing tool for the large-scale community and economic development activities carried out by local governments that are vital for improving their residents’ opportunities. As local governments nationwide continue to struggle with financing development needs, the requested loan guarantee authority would ensure the expanded availability of low-cost, flexible financing for

community and economic development projects for CDBG entitlement communities, non-entitlement local governments participating through the State CDBG program, and Insular Areas.

States and local governments face challenges in addressing their community and economic development needs. Often, the annual CDBG allocation alone is not sufficient to complete crucial large-scale community and economic development projects that communities desperately need. As a result, communities across the country turn to the Section 108 loan guarantee as a source of funds for these crucial projects. Currently, the Section 108 program supports approximately 300 localities across the country, with 525 outstanding loans totaling approximately \$1.83 billion. With leverage, a grantee can carry out a larger project with Section 108 financing than it could otherwise. Grantees can finance revenue generating activities (e.g., economic development) with a guaranteed loan and apply the future revenue to repayment of the debt.

The Section 108 program guarantees loans that offer variable and fixed-rate financing for up to 20 years to finance certain CDBG-eligible activities, including economic development activities, public facilities and improvements, housing rehabilitation, land acquisition, and related activities. Although some CDBG-eligible activities cannot be financed under Section 108 (such as program administration and public services), the CDBG activity types that can be financed through Section 108 account for approximately 70 to 75 percent of the total CDBG expenditures. Enhanced economic development data for consolidated planning, made possible through recent improvements to the Consolidated Plan, will help grantees understand how they can most efficiently use this financing. To assist governments with the fee-based financing mechanism, HUD allows Section 108 borrowers to include the fee in the guaranteed loan amount, as is permitted under other Federal guarantee programs (e.g., the Small Business Administration 504 program).

Entitlement communities are eligible to apply for Section 108 loan guarantees equal to five times their most recent CDBG award, and communities in non-entitlement areas may receive loan guarantees, in the aggregate, up to five times the State's grant under the CDBG program. As permitted in recent appropriations, several States have applied directly for Section 108 funding to be distributed to communities in non-entitlement areas to create a loan portfolio of economic development and public facilities projects.

Since 1977, HUD has issued 2,029 commitments totaling approximately \$10.1 billion. When HUD guarantees a Section 108 loan, it provides a full faith and credit guarantee to the lender, thereby ensuring favorable interest rates and timely payment of principal and interest. HUD has never paid a claim from the holder of a guaranteed obligation as a result of a default, due in part to the availability of CDBG funds for repayment if planned repayment sources are insufficient. The loans guaranteed under Section 108 are privately financed. As a result, HUD has developed a productive partnership with financial institutions who implement a flexible financing structure while providing States and local governments with low-cost financing.

Equity

The requested loan guarantee authority supports the Administration's agenda in advancing equity by allowing borrowers to leverage their CDBG funding for transformative projects that address community development needs such as rehabilitating affordable housing units, creating employment opportunities, and developing needed infrastructure in low- and moderate-income areas. Like CDBG funds, Section 108 funds primarily benefit low- and moderate-income persons that often suffer from a historic lack of Federal investment in their communities.

Funding Impact and Outcomes

The Section 108 program enables communities to leverage their CDBG funds into federally guaranteed loans large enough to pursue substantial physical and economic revitalization projects.

These projects allow communities to provide critical affordable housing to low- and moderate-income families, expand economic opportunities, and renew entire neighborhoods through new or rehabilitated infrastructure. The Section 108 program has clear utility as a job generating tool. Section 108-assisted projects approved between 2013 and 2023 are expected to create nearly 18,600 jobs based on \$1.16 billion in loan guarantees. Without the Section 108 program, many of these jobs would likely not have been created, as numerous economically distressed localities lack alternative sources of financing for community and economic development projects.

Authorizing the Section 108 program at \$400 million would result in the following outcomes:

- The economic development investments financed with loans that would be guaranteed under Section 108 are expected to create or retain at least 3,300 jobs.
- Based on historical data, Section 108 financing for economic development purposes would leverage approximately \$4.62 of additional funds for every \$1 of Section 108 loan funds.

The program is expected to provide \$112 million in financing for rehabilitation and construction of public facilities and infrastructure, \$124 million for housing rehabilitation, and \$164 million in assistance for economic development activities.

Performance Indicators and Other Evidence

As of December 2023, the Section 108 program supports 525 outstanding loans and commitments in communities across the country, with total commitments and balances of approximately \$1.83 billion. Recent higher interest rates make this low-cost capital more attractive to jurisdictions. Existing loan guarantee commitments could extend up to 25 years into the future. HUD must continue to ensure timely repayment of these loans on a quarterly basis as well as continue to provide regulatory and programmatic oversight.

Key Assumptions

The requested authorization of \$100 million more than the 2024 Annualized CR level is necessary due to growing demand for Section 108 loan guarantees to finance construction of infrastructure improvements and renovation of multi-family housing. Since 2020, HUD has continued to show increased demand for the program's offerings, despite a higher interest rate environment.

HUD's legislative proposal to add new construction of housing as a component of mixed-use development as an eligible activity under the Section 108 loan guarantee program will further increase demand for the program as unmet housing construction needs can now be addressed. On January 10, 2024, HUD published a proposed rule in the *Federal Register* that would help reduce barriers to use Section 108 funds for economic development projects.

Stakeholders

The CDBG program has historically been a catalyst for collaboration amongst Federal, State, local, and private-sector partners.

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

Budget Activity	2023 Budget Authority	2022 Carryover Into 2023	2023 Total Resources	2023 Obligations	2024 Annualized CR	2023 Carryover Into 2024	2024 Total Resources	2025 President's Budget
Community Development Fund Loan Guarantees (Section 108) -- Loan Guarantee Limitation Level	[300,000]	-	-	-	[300,000]	-	-	[400,000]
Total	-	-	-	-	-	-	-	-

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Legislative Proposals

The 2025 Budget supports the following legislative proposal and will seek changes through the authorization process:

New Construction of Housing in Mixed-Use Projects: HUD proposes to add new construction of housing as a component of mixed-use developments, i.e, developments that include housing and non-housing uses, as an eligible activity under the Section 108 loan guarantee program. HUD recognizes that the lack of affordable housing nationwide is a crisis that compels the Federal Government to use every program at its disposal to address. Historically, HUD has worked with Section 108 borrowers to finance new construction for public facilities or economic development activities and to support activities such as infrastructure, adaptive reuse, and rehabilitation. This proposal will boost housing supply and support transit-oriented development by enabling grantees to include new units of affordable housing in properties constructed for other uses.

The ability to directly fund new construction would simplify financing options and expand the pool of potential future Section 108 borrowers. In the past, communities seeking to use Section 108 funds have been stymied by new construction not being an eligible activity, especially as they sought to finance mixed-use developments, which are a popular way to connect housing units to job-generating businesses and/or needed services.

Allowing Section 108 borrowers to use funds to construct new housing in mixed-use developments would provide communities with a critical tool to finance new housing for low- and moderate-income persons. Limiting the addition of the new activity to only Section 108-funded activities — and not CDBG activities — maintains CDBG as a broad-based program while enabling grantees to address housing needs a part of a multi-pronged community development approach. Likewise, allowing only new construction of housing in mixed-use developments ensures that grantees focus such activities on projects that incorporate multiple aspects of community development, such as through the creation of jobs or provision of services in addition to adding new housing.

APPROPRIATIONS LANGUAGE

The 2025 President’s Budget includes the appropriations language listed below.

Subject to section 502 of the Congressional Budget Act of 1974 (2 U.S.C. 661a), during fiscal year 2025, commitments to guarantee loans under section 108 of the Housing and Community Development Act of 1974 (42 U.S.C. 5308), any part of which is guaranteed, shall not exceed a total

principal amount of \$400,000,000, notwithstanding any aggregate limitation on outstanding obligations guaranteed in subsection (k) of such section 108: Provided, That the Secretary shall collect fees from borrowers, notwithstanding subsection (m) of such section 108, to result in a credit subsidy cost of zero for guaranteeing such loans, and any such fees shall be collected in accordance with section 502(7) of the Congressional Budget Act of 1974: Provided further, That such commitment authority funded by fees may be used to guarantee, or make commitments to guarantee, notes or other obligations issued by any State on behalf of non-entitlement communities in the State in accordance with the requirements of such section 108: Provided further, That any State receiving such a guarantee or commitment under the preceding proviso shall distribute all funds subject to such guarantee to the units of general local government in non-entitlement areas that received the commitment.

Note.--A full-year 2024 appropriation for this account was not enacted at the time the Budget was prepared; therefore, the Budget assumes this account is operating under the Continuing Appropriations Act, 2024 and Other Extensions Act (Division A of Public Law 118–15, as amended). The amounts included for 2024 reflect the annualized level provided by the continuing resolution.